gemini asset management

marketmatters

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Review of markets over the fourth quarter of 2019 and a lookback at 2019 as a whole

In quarter 4, 2018, the markets gave investors a fright, but in 2019 equity markets bounced back strongly delivering fantastic returns. The MSCI World Index was up 28%, led by US equities (+31%), with European equities (+27%) in hot pursuit. Despite this roaring return from equities, government bonds also delivered.

From the beginning of the year to September, government bonds reacted as one would expect to weaker economic data, with bond yields broadly tracking the manufacturing surveys lower. The surprise was not the strong performance of government bonds but the strong rebound in equities against this backdrop of deteriorating data.

After the sharp falls in equities during the fourth quarter of 2018, the first four months of 2019 brought a strong rebound, as central banks signalled that rather than raise interest rates, they would provide yet more stimulus to try to keep the economic expansion intact. Equities clearly believed the central banks would succeed.

Then, from the end of April to the end of September, global equities broadly traded sideways with some bumps in the road, as investors digested the ebbs and flows in the trade negotiations between the US and China, and the continued deterioration in macroeconomic indicators.

Remarkably, by the end of September, both risk on – such as equities - and risk off – such as government bonds - assets had rallied strongly, with 20-year US Treasuries up circa 20% and the MSCI World index up 18%. The flood of central bank liquidity had lifted all boats. It should be said that such strong returns for both traditional risk-off and risk-on assets, at the same time, is unusual. By the time October began, both the bulls and the bears had been very well fed.

World Stock Market Returns

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Q4 2019
MSCI EM 79.0%	MSCI Asia ex Japan 19.9%	US S&P 500 2.1%	MSCI Asia ex Japan 22.7%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI EM 11.9%
MSCI Asia ex Japan 72.5%	MSCI EM 19.2%	UK FTSE All-Share -3.5%	Japan TOPIX 20.9%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI Asia ex-Japan 11.9%
UK FTSE All-Share 30.1%	US S&P 500 15.1%	MSCI Europe ex UK -12.1%	MSCI Europe ex UK 20.0%	MSCI Europe ex UK 24.2%	MSCI Europe ex UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 9.1%
MSCI Europe ex UK 29.0%	UK FTSE All-Share 14.5%	Japan TOPIX -17.0%	MSCI EM 18.6%	UK FTSE All-Share 20.8%	MSCI Asia ex Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 8.6%
US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -17.1%	US S&P 500 16.0%	MSCI Asia ex Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex Japan -8.9%	MSCI Europe ex UK 3.2%	MSCI Europe ex UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 5.3%
Japan TOPIX 7.6%	Japan TOPIX 1.0%	MSCI EM -18.2%	UK FTSE All-Share 12.3%	MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share 4.2%

Source: FTSE, MSCI, Refinitiv Datastream, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 December 2019.

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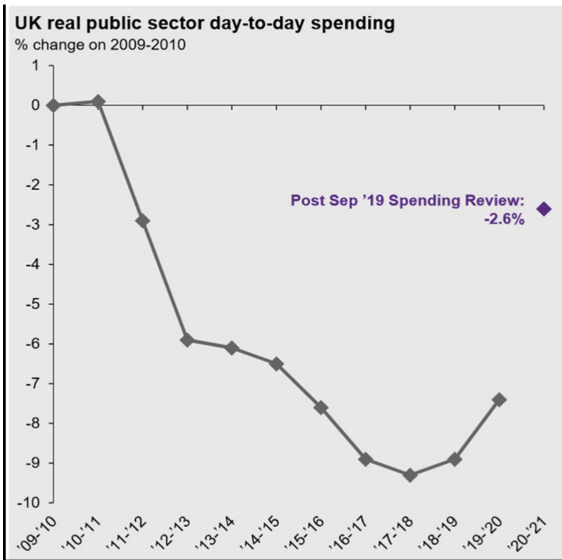
However, the fourth quarter has decided the year in favour of the bulls. Global equities rose another 9% in the last three months of the year, while developed market government bonds gave up some of their gains.

Several factors helped drive equities and bond yields higher in the final quarter. First of all, the US and Eurozone manufacturing business surveys picked up slightly from September, although they remain weak. Second, the service sector business surveys in the US and Europe also picked up. Most importantly, despite headlines involving large job cuts at some companies in Europe, overall employment has held up well, and in the US over 200,000 jobs were added in November. The pickup in the service sectors, and the resilience of overall employment to the weakness in manufacturing, has helped restore market confidence that a recession is not imminent.

The fourth quarter also saw two significant political risks avoided, at least for now. US tariffs on China were scheduled to increase on the 15th December but a phase one trade deal avoided that outcome and provided a significant relief for equity markets. The fact that the US also didn't impose tariffs on the European Union automotive exports also helped support equities. How long the trade peace will last is anyone's guess but the market ended the quarter cheered by the fact the worst case scenario for trade had, at least for now, been avoided.

Closer to home we saw that the Conservative Party won a large majority in the UK general elections and consequently removed the threat of nationalisation for some utility companies after the chances of a Jeremy Corbyn led government abated. In addition, the election meant that the UK could pass a European Union withdrawal bill, activating a transition period during which little will change, until the end of 2020. The combination of these election implications helped lift UK stocks and sterling over the quarter as positive market sentiment washed back over the UK after years of uncertainty.

Another driver of the recent sentiment shift in the UK was due to the new government campaigning on the grounds of a large fiscal stimulus package in order to boost economic growth, end measures of austerity and to 'level-up' the country. Evidence of this can be seen in the below chart:



Source: Office for Budget Responsibility (OBR), J. P. Morgan Asset Management. Past performance is not a reliable indicator of current and future returns. *Guide to Markets – UK.* Data as of 31 December 2019.

The grey line on the chart above is based on the data from the Office for Budget Responsibility's (OBR) March 2019 Economic & Fiscal Outlook, while the purple diamond reflects the planned increase in public sector spending for fiscal year 2020/2021. The large increase in UK government spending should at the least provide a ballast to the economic growth.

Sterling's initial rally after the election result soon faded when it was announced that it would be made law that there would be no extension to the transition period beyond the end of 2020, giving the UK government a very short period of time to agree a free trade deal that avoids a hard Brexit.

The fourth quarter was also notable for personnel changes at key central banks with Christine Lagarde taking over from Mario Draghi at the European Central Bank (ECB) and Andrew Bailey being announced as Mark Carney's successor at the Bank of England. In terms of policy action, both the Federal Reserve (Fed) and the ECB started to expand their balance sheets again and the Fed cut interest rates for the third time that year.

So, it's been a great year to be invested, almost irrespective of what you were invested in. This year is unlikely to be so indiscriminate and such high returns are likely to be harder to come by. If the global economy reaccelerates, equities should rise, although higher starting valuations might limit the extent of the upside. In this scenario, government bond yields should also move higher, rather than fall as they did in 2019.

If growth continues to slow and profit pressures cause companies to cut jobs, then 2020 could be another good year for government bonds, and a more challenging year for equities and credit. Either way, with the Brexit trade negotiations and the US election to contend with, 2020 certainly won't be a quiet one, with plenty of uncertainty likely to linger.

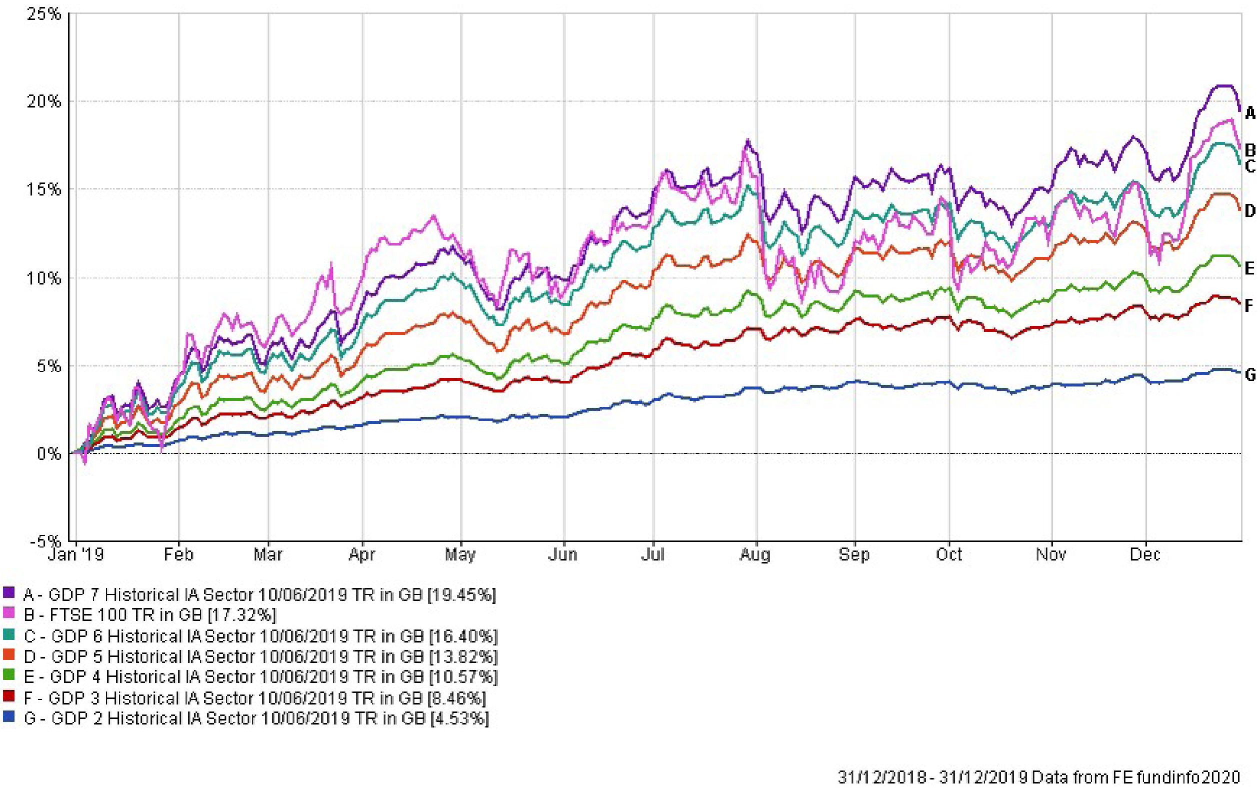
Fixed Income

2012	2013	2014	2015	2016	2017	2018	2019	Q4 2019
Italy 20.5%	Spain 11.1%	Spain 15.9%	Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	Global -0.1%
Spain 5.4%	Italy 7.2%	Italy 15.2%	Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	US -0.8%
Germany 5.0%	Japan 2.1%	UK 14.6%	Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	Japan -1.2%
UK 2.9%	Germany -1.7%	Germany 9.0%	US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	Spain -2.1%
US 2.0%	US -2.7%	US 5.1%	UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Germany -2.9%
Global 2.0%	UK -4.2%	Japan 4.5%	Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Italy -3.1%
Japan 1.7%	Global -4.3%	Global -1.0%	Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	UK -4.2%

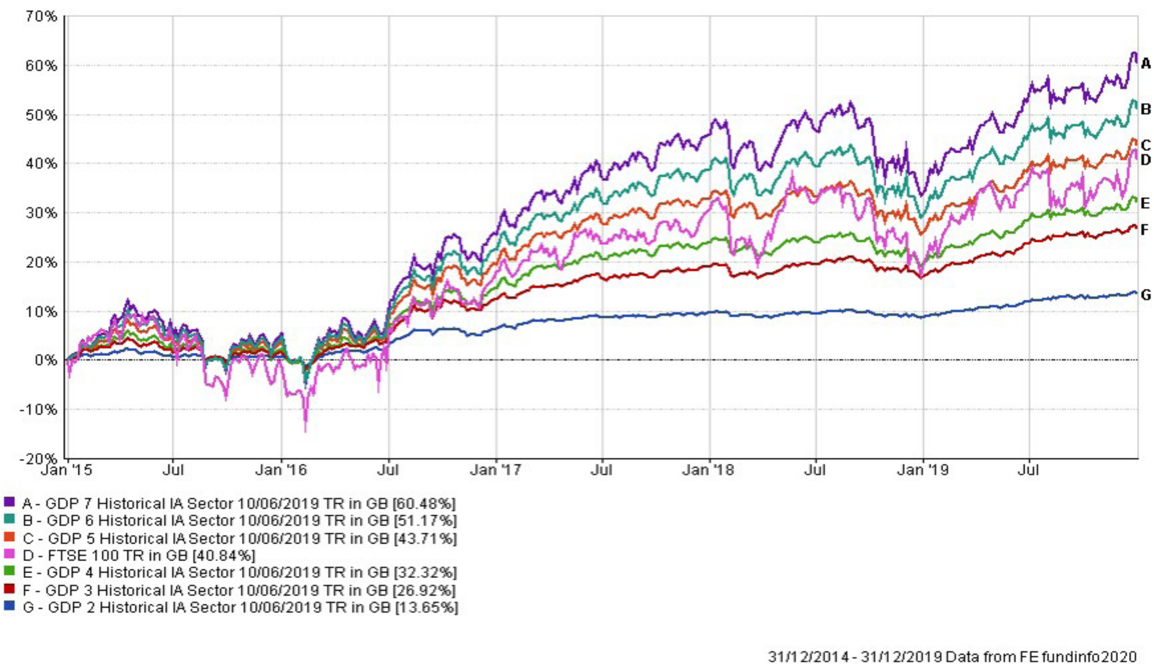
Source: Bloomberg Barclays, Refinitiv Datatsream, J.P. Morgan Asset Management. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 December 2019.

Portfolio Performance

The charts below show performance of our discretionary risk rated portfolios over the course of the last 1 and 5 years. The charts are based upon our existing discretionary models looking back and so only take into account the asset allocation and fund changes made since March 2017 i.e. since the models were created. The data beyond this therefore presumes investment in the same funds and asset allocations as of March 2017. The charts compare performance against the FTSE 100 in order to demonstrate the importance of spreading risk through diversification. Whilst a direct comparison of our portfolios with an equity index such as the FTSE 100 is not like for like it does give an indication of volatility and performance differences on a risk-adjusted basis.



Source: Financial Express Analytics data 31/12/2018 to 31/12/2019. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.



Source: Financial Express Analytics data 31/12/2014 to 31/12/2019. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

Asset Allocation and Fund Review

The investment committee reviewed the existing asset allocation models in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were **no changes** to the asset allocation models or the funds we are invested in during the fourth quarter relating to plans managed under our Discretionary Fund Management Service (DFM).

For plans that come under our Advisory service there are **no changes** to fund choice or the asset allocation models recommended for this quarter.

Secure Client Login

Our Secure Client login portal allows the investment team to act swiftly with regard the reporting and fund switching process. An increasing number of clients are signing up for this service.

If you have not already registered and would like to do so, please do not hesitate to email us at **investment.team@gemini-wm.com** and we will set you up for this facility.

We continue to welcome client feedback of this service. You can use one of the two email addresses on the Client Login portal to contact us, alternatively please contact Gemini's Investment Analyst, Tom Morgan, on 0121 354 2700